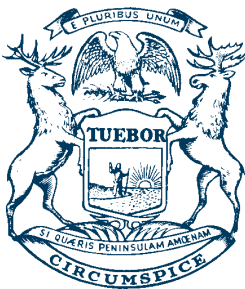




MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* **REPORT SUMMARY**

Performance Audit

Office of Quality Assurance

Department of Human Services (DHS)

Report Number:
43-130-04

Released:
December 2005

The Office of Quality Assurance's (OQA's) primary mission is to conduct quality control reviews of client case files in accordance with federal regulations governing the Food Assistance Program (FAP) and Medicaid. The objectives of the reviews are to provide a systematic method of measuring the validity of the program caseload, determining caseload error rates, and providing a continuous flow of information to all levels of management on which to base corrective action.

Audit Objective:

To assess the effectiveness of OQA's efforts to determine the accuracy of recipient eligibility and benefit decisions for FAP and Medicaid.

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Audit Conclusion:

We concluded that OQA was effective in determining the accuracy of recipient eligibility and benefit decisions for FAP and Medicaid. However, we noted reportable conditions related to FAP quality control review sample notification, identification of staff training needs, and Medicaid training (Findings 1 through 3).

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Agency Response:

Our report contains 3 findings and 4 corresponding recommendations. DHS indicated that it agrees with all 4 recommendations.

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A copy of the full report can be
obtained by calling 517.334.8050
or by visiting our Web site at:
<http://audgen.michigan.gov>



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 28, 2005

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the performance audit of the Office of Quality Assurance, Department of Human Services.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The primary mission* of the Office of Quality Assurance (OQA), Department of Human Services (DHS), is to conduct quality control reviews of client case files in accordance with Title 7, Parts 271 - 277 of the *Code of Federal Regulations (CFR)* governing the Food Assistance Program (FAP) and federal regulations 42 *CFR* 431 governing Medicaid. The objectives of quality control reviews are to provide a systematic method of measuring the validity of the program caseload, determining caseload error rates*, and providing a continuous flow of information to all levels of management on which to base corrective action.

DHS is responsible for administering FAP, and OQA helps fulfill that responsibility by conducting FAP quality control reviews*. Also, OQA conducts Medicaid quality control reviews* under an interagency agreement with the Department of Community Health, the State agency responsible for administering Medicaid.

OQA is responsible for selecting statistically valid samples, for reviewing sample item case files to verify that eligibility requirements are met and benefits are accurately determined, for calculating and reporting FAP and Medicaid error rates, and for identifying areas and causes of deficiencies for management's corrective action. The Department of Information Technology assists OQA in sample item selection.

In addition to its FAP and Medicaid quality control reviews, OQA reviews a random sample of client files on a monthly basis to comply with federal Temporary Assistance for Needy Families (TANF) reporting requirements, including verification of family circumstances and employment. However, no eligibility determination is required or made for the TANF reviews. Also, during our audit period, OQA maintained a telephone survey center that performed an ongoing monthly survey from a sample of approximately 3,000 (1,000 completed) Family Independence Program clients participating in the State's cash assistance program. The surveys were intended to gather information on client circumstances and perceptions for management policy development purposes. The telephone survey center was transferred to another unit of DHS near the completion of our audit fieldwork.

OQA expended \$3.7 million during fiscal year 2002-03 and had 50 employees as of June 30, 2004.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objective

The objective of our performance audit* of the Office of Quality Assurance (OQA), Department of Human Services (DHS), was to assess the effectiveness* of OQA's efforts to determine the accuracy of recipient eligibility and benefit decisions for the Food Assistance Program (FAP) and Medicaid.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Quality Assurance. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, conducted from April through September 2004, included examining OQA records and procedures primarily for the period October 2001 through June 2004.

Our methodology included a preliminary review of OQA operations. This included interviewing various OQA and Department of Information Technology staff. We researched applicable State and federal statutes, policies and procedures, manuals, reports, and other reference material. We reviewed federal and state audit reports related to quality control initiatives. Also, we gained an understanding of the systems used by OQA to perform its functions.

To accomplish our audit objective, we interviewed staff at the Medical Services Administration, Department of Community Health, and reviewed system documentation to verify that the Medicaid programs subject to quality control review by OQA were included in the population sampled by OQA. We sampled FAP and Medicaid quality control review cases to assess for accuracy and timeliness. Also, we reviewed OQA reports to assess the accuracy and timeliness of reporting quality control review results. We met with federal program personnel for FAP and assessed documentation related to

* See glossary at end of report for definition.

federal oversight of FAP. We reviewed OQA's oversight processes to ensure accurate quality control reviews and assessed training provided to OQA staff.

Agency Responses and Prior Audit Follow-Up

Our report contains 3 findings and 4 corresponding recommendations. DHS indicated that it agrees with all 4 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Office of Quality Assurance, Special Services Administration, Department of Social Services (#4313087), in September 1987. Within the scope of this audit, we followed up 3 of the 15 prior audit recommendations. All 3 prior audit recommendations had been complied with.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO DETERMINE ACCURACY OF ELIGIBILITY AND BENEFIT DECISIONS FOR FOOD ASSISTANCE PROGRAM (FAP) AND MEDICAID

COMMENT

Audit Objective: To assess the effectiveness of the Office of Quality Assurance's (OQA's) efforts to determine the accuracy of recipient eligibility and benefit decisions for FAP and Medicaid.

Conclusion: We concluded that OQA was effective in determining the accuracy of recipient eligibility and benefit decisions for FAP and Medicaid. However, we noted reportable conditions* related to FAP quality control review sample notification, identification of staff training needs, and Medicaid training (Findings 1 through 3).

FINDING

1. FAP Quality Control Review Sample Notification

OQA provided local offices with excessive advance notice of cases selected for FAP quality control review. In addition, OQA guidance conflicted with federal Food and Nutrition Service (FNS) policy. As a result, the opportunity existed for a local office to adjust a case file or to make inappropriate contact with clients or other collateral contacts* regarding the sample cases.

State agencies are required under Title 7, Part 275, section 14 of the *Code of Federal Regulations* to use FNS Handbooks for quality control reviews. Section 154 of FNS Handbook 310 and Section 3221 of FNS Handbook 311 warn State agencies to avoid prior knowledge by local agencies of cases scheduled for review.

Beginning in 1999, OQA posted a list of the FAP monthly sample cases on the Department of Human Services' (DHS's) intranet for review by the local offices. DHS encouraged local offices to review the sample case files prior to the OQA review in order to ensure that the case files were complete and that proper documentation of actions taken by eligibility workers was included. DHS guidance advised local offices that the quality control review could begin within 3 working days of posting the list of sample cases.

* See glossary at end of report for definition.

Our review of a random sample of 90 completed FAP quality control reviews for the months of June 2002 through February 2004 and review of OQA's policies disclosed:

- a. OQA provided local offices with an excessive length of time to prepare cases selected for quality control review:
 - (1) The average number of days between posting the list of sample cases on the intranet and the date that the quality control review began was 17 days and the median was 14.5 days. The range of days between posting the list of sample cases and beginning the review was from 0 to 42 days. The average number of days between assigning the cases to quality control reviewers and the date that the reviews began was 14 days and the median was 11 days. The range of days between assigning the cases and beginning the review was from 0 to 34 days.
 - (2) For 28 (31%) of the 90 cases, OQA began the case file reviews more than 20 days after posting the sample list of cases on the intranet. For 18 (20%) of the 90 cases, OQA began the reviews more than 20 days after assigning the sample cases to quality control reviewers.

While efficiency may be achieved by allowing local offices time to locate sample case files prior to review, providing such extensive notice could impact quality control review conclusions. For fiscal year 2002-03, FAP beneficiary payments totaled approximately \$790 million.

- b. OQA guidance conflicted with FNS policy.

OQA's audit record checklist form did not contain the required FNS warning statement that was intended to protect the integrity of the case files. OQA developed a checklist to help the local office provide a complete record for the quality control review. FNS approved use of checklists in its Food Stamp Program Quality Control Policy Memo QC-00-01. However, the Policy Memo stipulated that the checklist was intended to be an aid for gathering already existing records. It described certain activities that should not occur at local offices, such as reviewing the case and making any additional case comments or in any way attempting to provide information that would change the quality control reviewer's conclusion if the information was not added. FNS required

the checklist to contain language that stipulated that additions should not be made to the record.

RECOMMENDATIONS

We recommend that OQA discontinue providing local offices with excessive advance notice of cases selected for FAP quality control review.

We also recommend that OQA guidance comply with FNS policy.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that it will limit the advance notice of the FAP sample cases and will establish a policy to start the quality control review within 3 to 5 working days of posting the list of sample cases.

DHS also informed us that it has removed the checklist from the DHS intranet.

FINDING

2. Identification of Staff Training Needs

OQA had not developed and implemented an effective process to identify and address the training needs of its quality control review staff. As a result, an opportunity to increase the efficiency and accuracy of the initial FAP and Medicaid quality control reviews is not available.

OQA's quality control process includes the supervisory review of all FAP and Medicaid quality control reviews completed by their respective staff. In addition, managers and other OQA staff review certain cases following these supervisory reviews. When errors are noted, the cases are returned to the quality control reviewers for correction. FAP quality control reviews are subject to additional review by a DHS FAP Error Review Committee, composed of OQA and several other DHS staff, and by FNS, as part of its oversight process.

We noted that a significant number of initial quality control reviews determinations required correction. One OQA staff person needed to return for correction 59 (16%) of 380 Medicaid quality control reviews that she reviewed during fiscal year 2002-03. Also, the DHS FAP Error Review Committee needed to return for

correction or clarification 39 (54%) of 72 of the quality control reviews that it reviewed for the seven-month period October 2003 through April 2004.

Our review of OQA efforts to identify and address the training needs of its quality control review staff disclosed:

- a. OQA had not developed a formal process to document and compile the reasons why quality control reviews were returned for correction. Such a process could serve as a resource to identify staff training needs. OQA informed us that it previously had a system to track this information, but because of staff reductions and the system's complexity, it had not been maintained.

Various documents used by OQA to return cases identified the reasons that the cases required correction and could be a valuable resource in identifying areas for staff improvement. However, OQA had not compiled this information. As a result, OQA was unable to provide information regarding the total number of reviews returned to quality control reviewers for correction or reasons for returning them.

- b. OQA had not developed a process to compile and assess information provided by FNS regarding the accuracy of OQA review determinations. FNS recommends using the information as a basis for training because it indicates problem areas in the quality control process.

FNS sent letters that detailed the results of its review of a sample of OQA cases. An FNS "difference letter" indicated that it disagreed with OQA's conclusion regarding the case; an FNS "deficiency letter" indicated that it agreed with the conclusion, but noted certain deficiencies in the quality of the review. The tables below summarize the problems noted by FNS in the OQA

quality control review determinations that FNS sampled for fiscal years 2001-02 and 2002-03:

FNS Difference Letters Summary

	Fiscal Year	
	2001-02	2002-03
FAP active case* reviews	24	18
FAP negative action case* reviews	17	11
FAP dropped case* reviews	3	6

FNS Deficiency Letters Summary

	Fiscal Year	
	2001-02	2002-03
Number of Cases Reviewed by FNS With at Least One Deficiency	231	227
Cited Deficiency Type:		
Policy	46	36
Verification	50	23
Documentation	85	45
Computation	33	23
Transcription	19	13
Other (1)	116	154
Total (2)	349	294

- (1) Deficiency comments, but no deficiency coding type indicated by FNS.
- (2) The total number of deficiencies will exceed the number of cases reviewed because a case may have more than one deficiency.

OQA stated that it updated staff about the deficiencies during regular staff meetings and individually, if indicated. Also, OQA informed us that it used the FNS information as a general performance measure, e.g., decreases in FNS differences and deficiencies indicated that quality control review staff performance was improving. However, without a process to utilize the FNS information to identify and address staff training needs, OQA had no assurance that decreases in FNS difference and deficiencies were the result of improved staff performance rather than the re-review process completed by other managerial staff.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that OQA develop and implement an effective process to identify and address the training needs of its quality control review staff.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that it is in the process of developing a formal system to track the return of quality control case reviews for additional follow-up, clarification, and possible correction. DHS stated that the majority of cases returned to the reviewers are for further clarification, not correction. DHS also stated that it will develop a structured process to review and analyze FNS differences.

FINDING

3. Medicaid Training

OQA did not provide formal training to its Medicaid reviewers, even though its newer and less experienced staff performed Medicaid quality control reviews. As a result, the accuracy of the Medicaid quality control reviews may have been impacted.

OQA informed us that its newly hired staff came from the pool of DHS staff who were knowledgeable about FAP and Medicaid. New staff received on-the-job training by working initially with experienced quality control review staff and received reduced sample case assignments. Beginning in November 2002, OQA streamlined the quality control process by designating reviewers as either FAP or Medicaid quality control reviewers and assigned its experienced staff to the FAP reviews. OQA informed us that staff personal preferences and geographic consideration impacts the assignments.

We reviewed OQA training opportunities provided to all staff primarily for the period February 2002 through August 2004. Although we noted an overall increase in training activities, these related primarily to FAP. Based on our review and statements from OQA staff, we determined that OQA provided no formal Medicaid training during the period.

The Medicaid quality control process lacks additional oversight such as that provided for FAP by the DHS FAP Error Review Committee and by federal

program personnel who perform quality control sample case reviews. Results from those mechanisms provide feedback to OQA regarding the accuracy and quality of reviews, which can be used to identify staff training needs (Finding 2). These factors also suggest a need for Medicaid training similar to FAP training to ensure that Medicaid quality control review staff are sufficiently trained regarding the Medicaid quality control process.

RECOMMENDATION

We recommend OQA provide formal training to Medicaid quality control reviewers.

AGENCY PRELIMINARY RESPONSE

DHS agrees and informed us that it will develop a formal Medicaid training plan.

GLOSSARY

Glossary of Acronyms and Terms

active case	A household that was certified prior to or during the sample month and issued food stamp benefits for the sample month.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
collateral contact	A source of information that can be used to verify household circumstances. Collateral contacts are generally individuals, but may also be documents, such as those maintained in government offices.
DHS	Department of Human Services (formerly the Family Independence Agency and the Department of Social Services).
dropped case	A sample case that cannot be completed. Dropped cases occur mainly because a customer or collateral source of verification cannot be located or is not cooperative.
effectiveness	Program success in achieving mission and goals.
error rate	An estimate of the percentage of inaccurate eligibility or payment determinations for the program based on the results of a statistically valid sample of cases.
FAP	Food Assistance Program (formerly Food Stamps).
FAP quality control review	A review of a statistically valid sample of active and negative cases to determine the extent to which households are receiving the food stamp allotments to which they are entitled and to determine the extent to which decisions to deny, suspend, or terminate cases are correct.
FNS	Food and Nutrition Service.

Medicaid quality control review	A system to measure, identify, and eliminate or reduce dollar losses as a result of erroneous eligibility determinations.
mission	The agency's main purpose or the reason that the agency was established.
negative action case	A household whose application for food stamp benefits was denied or whose food stamp benefits were suspended or terminated by an action in the sample month or by an action effective for the sample month.
OQA	Office of Quality Assurance.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
TANF	Temporary Assistance for Needy Families.

